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SUBJECT: NEW FINANCE MINISTER FACES BLEAK ECONOMIC REALITY

REF: A. TEGUCIGALPA 00027
[1](#)B. 09 TEGUCIGALPA 1302

[1](#)1. (SBU) Summary: In the new government's first public remarks on the economy following the January 27 inauguration of Porfirio "Pepe" Lobo as president of Honduras, the newly appointed Minister of Finance, William Chong Wong, presented a bleak picture of the economic situation, calling the nation "bankrupt." He urged prompt international recognition of the new government and donor support for the fiscal emergency plan the administration will develop. Encouragingly, Chong raised the need to trim the government payroll, an issue that is politically tricky but essential to economic reform. End summary.

[1](#)2. (U) New Minister of Finance William Chong Wong wasted no time following the January 27 inauguration of President Lobo in announcing his assessment of the current financial state of the nation. Chong said in a press conference on January 28 that the country is bankrupt and that there is nothing promising in the current economic outlook. He cited the policies and practices of the previous administration of Manuel Zelaya, the global economic recession, and the political crisis of the last year as the primary causes of these difficult circumstances. He said that approximately 3.5 billion Lempiras (185 million USD) spent by previous administration have been unaccounted for.

[1](#)3. (U) According to Chong, the current general treasury balance is \$1 billion Lempiras (approximately 52.6 million USD). The internal debt is calculated at 23 billion Lempiras (1.2 billion USD), while the external debt stands at 60.5 billion Lempiras (3.2 billion USD), and floating debt (for unpaid contracts, salaries, and subsidies) amounts to 4.7 billion Lempiras (249 million USD).

[1](#)4. (U) Both President Lobo, in his inauguration speech, and Finance Minister Chong have called for austerity measures and open, serious discussions on how to overcome this fiscal emergency. While specific steps have not yet been outlined, re-engaging with the international community and restarting international support will be an urgent priority. After the coup of June 28, 2009, the Interamerican Development Bank stopped payments on 64.3 million dollars out of planned 97.1 million, while the World Bank withheld 42.5 million dollars out of planned 90 million. Chong stated that negotiating a stand-by arrangement with the IMF is an urgent priority.

[1](#)5. (U) Minister Chong pointed out that the issue of government salaries will also need to be considered. With more than 75 percent of government revenue going to salaries, he said, additional belt-tightening may be necessary. Chong expressed hope that teachers, which make up the largest portion of public employees, will be able to take this into consideration and avoid strikes that hurt education. He also indicated that the country cannot bail itself out by simply

raising taxes, since this money is needed by the private sector for savings and investment that will help the economy.

However, he subsequently commented publicly that he will continue to study the fiscal plan developed by his immediate predecessor, de facto Finance Minister Gabriela Nunez, which includes provisions to re-evaluate tax exemptions and taxes on alcohol and tobacco. He also sees hope for finding additional support through public-private partnerships.

¶6. (SBU) Comment: The issue of government salaries is central to economic reform, since there will be little room for investment spending unless payroll expenditures are curbed significantly. However, it is also politically sensitive, given the strength of the teachers' unions and their tendency to go on strike whenever they feel aggrieved. Past governments have failed to tackle the issue, expecting donors to fill the investment gap. Minister Chong's willingness to raise this so early in the new administration is an encouraging sign. End comment.

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